

Message Text

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ACTION EB-07

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 4320

INFO AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

C O N F I D E N T I A L HONG KONG 3155

PASS TREASURY AND FEDERAL RESERVE BANK

E.O. 11652: XGDS-1

TAGS: EFIN, HK

SUBJECT: REGULATIONS OF INVESTMENT BANKS

REF: HK 400

1. RECENT CONTACTS WITH U.S. BANKS AND BANKING COMMISSIONER REVEAL A PROBLEM IN THE PROPOSED LEGISLATION TO REGULATE NON-LICENSED FINANCIAL INSTITUTIONS. THE PROVISION, TAKEN FROM THE BANKING ORDINANCE, TO LIMIT LENDING TO 25 PERCENT OF PAID UP CAPITAL AND RESERVES TO ANY ONE PERSON OR COMPANY, WOULD HAVE THE MOST SERIOUS EFFECT ON U.S. AFFILIATED INSTITUTIONS (SEE REFTTEL). THEIR MAJOR BUSINESS IS THE ARRANGEMENT OF ASIAN DOLLAR LOANS IN LARGE AMOUNTS AND THEIR LOCAL CAPITAL IS VERY SMALL.

2. USE OF THE NON-BANK AFFILIATE PROBABLY NOW HAS THE EFFECT OF REMOVING THE SUBSIDIARY FROM FEDERAL RESERVE REGULATIONS, LIMITING LOANS TO ANY ONE COMPANY TO 10 PERCENT OF CAPITAL AND RESERVES.

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THEREFORE, WITH RESPECT TO RESTRAINING A CONCENTRATION OF LOANS

TO ONE BORROWER, THE INTEREST OF LOCAL HONG KONG BANKING COMMUNITY WHICH SEEKS TO CURB NON-BANKS, AND CURRENT U.S. REGULATORY POLICY, AND THAT OF THE BANKING COMMISSIONER, WHICH ARE ESPECIALLY CONCERNED ABOUT BANK SOLVENCY, MAY COINCIDE. STRICT INTERPRETATION OF THIS PROVISION WOULD SUBSTANTIALLY MODIFY THE OPERATIONS OF THE INTERNATIONALLY AFFILIATED MERCHANT BANKS AND LESSEN THE ATTRACTION OF HONG KONG AS SITE FOR THIS TYPE OF BUSINESS. IF, ON THE OTHER HAND, LIMITED BANKING LICENSES WERE ISSUED, THE INSTITUTION COULD BECOME A BRANCH AND DRAW ON HEAD OFFICE CAPITAL.

3. BEGIN XGDS-1. BANKING COMMISSIONER TOLD TREASURY REPRESENTATIVE THAT HE IS SEEKING A DEVICE THAT WOULD GET AROUND THIS OBSTACLE BY HAVING THE HEAD OFFICE ISSUE SOME SORT OF GUARANTY OR LETTER OF CREDIT. THIS APPROACH IS PATTERNED ON BANKING COMMISSIONER'S CURRENT TREATMENT OF FOREIGN BANK BRANCHES WHICH REGARDS THE HEAD OFFICE CAPITAL AS THE BASE FOR CALCULATING THE 25 PERCENT LIMITATION. END XGDS-1.

4. DRAFTING OF THE BILL IS PROCEEDING VERY SLOWLY. BEFORE FINAL ACTION IS TAKEN, THE BANKING COMMISSIONER, ANTHONY OCKENDEN, HOPES TO VISIT THE U.S. IN LATE JUNE TO DISCUSS THIS AND OTHER MATTERS WITH THE FEDERAL RESERVE SYSTEM (WASHINGTON, NEW YORK AND SAN FRANCISCO) AND THE COMPTROLLER OF THE CURRENCY. HIS SCHEDULE WILL BE PASSED ON WHEN IT BECOMES FIRM. CROSS

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